

Federal Housing Finance Agency  
Office of Inspector General



# **Compendium of Open Recommendations**

March 1, 2017

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## ABBREVIATIONS .....

DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
EIC	Examiner-in-Charge
Enterprises	Fannie Mae and Freddie Mac
FHFA	Federal Housing Finance Agency
MRA	Matter Requiring Attention
NIST	National Institute of Standards and Technology
OIG	Federal Housing Finance Agency Office of Inspector General
ROE	Report of Examination

## INTRODUCTION .....

Since the Federal Housing Finance Agency Office of Inspector General (OIG) began operations in October 2010, we have made more than 350 recommendations<sup>1</sup> to improve efficiency and effectiveness and reduce fraud, waste, and abuse at the Federal Housing Finance Agency (FHFA or Agency) and at the government-sponsored enterprises for which the Agency acts as conservator and regulator, Fannie Mae and Freddie Mac (the Enterprises), and at the Federal Home Loan Banks for which the Agency acts as regulator. As required under the Inspector General Act of 1978, as amended, we provide information on open and closed recommendations in each semiannual report to the Congress.<sup>2</sup>

To maintain the focus on opportunities for improvement that our recommendations identify, OIG will publish a monthly report setting forth all open recommendations from our audits, evaluations, and other studies.<sup>3</sup> For additional information on any recommendation, please click on the hyperlinked report number to access its underlying report. This compendium is comprehensive as of March 1, 2017.

Because FHFA serves a unique role as both conservator and regulator of the Enterprises, OIG's responsibilities necessarily include oversight of FHFA's actions in both of these roles, in order to determine whether the Agency is fulfilling its statutory duties and responsibilities and safeguarding the taxpayers' resources. Our oversight role also reaches the Enterprises--recipients of \$187.5 billion in taxpayer monies-- to ensure that they are satisfying their obligations under the authority delegated to them in the conservatorships, and third parties (such as lenders and servicers). Through oversight, transparent reporting of results, and robust enforcement, OIG seeks to be a voice for, and protect the interest of, those who have funded Treasury's investment in the Enterprises—the American taxpayers.

### The Process by which OIG Formulates Recommendations

Our recommendations, like those of other inspectors general, are primarily made in written reports issued by our Offices of Audits, Evaluations, and Compliance. We report the facts, as found, and recommend actions to address any shortcomings we identify in FHFA's exercise of its statutory duties and responsibilities or by one or both Enterprises, in connection with their execution of responsibilities delegated to them by FHFA, as conservator. Each

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<sup>1</sup> Includes public and non-public recommendations.

<sup>2</sup> OIG's semiannual reports are available at [www.fhfaig.gov/Reports/Semiannual](http://www.fhfaig.gov/Reports/Semiannual).

<sup>3</sup> This report does not include recommendations under consideration for work that is in progress.

recommendation proposes a course of action to correct the shortcoming that our work has identified.

FHFA is provided an opportunity to review each report and recommendation prior to publication and provide a written response, which is included in OIG's final published report. FHFA's written response states whether it agrees with OIG's recommendation and, if so, the Agency's proposed action(s) to implement the recommendation.

## Tracking of OIG Recommendations

FHFA's determinations whether to agree with OIG's recommendations are included in our published reports. Once FHFA has accepted an OIG recommendation, it reports to us on its efforts to implement the "corrective action" that is intended to respond to the recommendation. When FHFA believes that its implementation efforts are well underway or that implementation is complete, FHFA provides that information to us, along with corroborating documents, and we rely on those materials in determining whether to close recommendations. If the Agency rejects a recommendation or conclusively refuses to implement an acceptable corrective action, then we will close the recommendation and report it separately in this compendium.

## Validation Testing

OIG typically relies on materials and representations from the Agency to close its recommendations and may close some recommendations based on the Agency's representations as to the corrective actions it has taken. Accordingly, we are not always able to assess, at the time of closure, whether the implementation actions by FHFA meet the letter and spirit of the agreed-upon recommendation, nor can we determine, at closure, the longer-term impact of the recommendation. To better assess both the implementation and impact of OIG recommendations, we concluded that validation testing is needed. Such testing, and disclosure of results of that testing, provides greater accountability and adds value to FHFA and the American taxpayers it serves.

Because our Offices of Audits and Evaluations historically had not conducted extensive corrective action verification testing, we created the Office of Compliance and Special Projects. The primary operational role of that office is to examine closed recommendations to assess independently FHFA's implementation of the corrective actions it represented to OIG that it intended to take, as well as the impact of those actions, and to publish reports of its validation testing in "compliance reviews." These compliance reviews enable our stakeholders to assess the impact of OIG's recommendations, as well as the efficacy of the Agency's implementation of those recommendations. Compliance reviews enhance OIG's

ability to stimulate positive change in critical areas and promote economy, efficiency, and effectiveness at FHFA.

Any open recommendations contained in published compliance reviews are included in this compendium.

## OPEN RECOMMENDATIONS .....

### Conservatorship: Non-Delegated Responsibilities

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Oversight of Fannie Mae Headquarters Consolidation and Relocation</b>	<ul style="list-style-type: none"> <li>Ensure that FHFA has adequate internal staff, outside contractors, or both, who have the professional expertise and experience in commercial construction to oversee the build-out plans and associated budget(s), as Fannie Mae continues to revise and refine them.</li> <li>Direct Fannie Mae to provide regular updates and formal budgetary reports to the Division of Conservatorship for its review and for FHFA approval through the design and construction of Fannie Mae's leased space in Midtown Center.</li> </ul>	Improved oversight	<p><i>Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project.</i></p> <p><a href="#">COM-2016-004</a>. June 16, 2016.</p>

### Conservatorship: Delegated Responsibilities

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Development of Common Securitization Platform</b>	<ul style="list-style-type: none"> <li>Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.</li> </ul>	Improved fraud prevention	<p><i>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure.</i></p> <p><a href="#">EVL-2013-010</a>. August 22, 2013.</p>
<b>Review and Enhancement of Underwriting Standards</b>	<ul style="list-style-type: none"> <li>The Division of Housing Mission and Goals should formally establish a policy for its review process of underwriting standards and variances, including escalation of</li> </ul>	Improved oversight	<p><i>FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards.</i></p> <p><a href="#">AUD-2012-003</a>.</p>

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
	unresolved issues reflecting potential lack of agreement.		March 22, 2012. See also <i>Compliance Review of FHFA's Implementation of Its Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances</i> . <a href="#">COM-2016-001</a> . December 17, 2015.

## Supervision

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Examiner Capacity</b>	<ul style="list-style-type: none"> <li>Develop a process that links annual Enterprise examination plans with core team resource requirements.</li> </ul>	Improved supervision	<i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i> . <a href="#">EVL-2014-002</a> . December 19, 2013.
<b>Accreditation of Examiners</b>	<ul style="list-style-type: none"> <li>Establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.</li> <li>FHFA should determine the causes of the shortfalls in the Housing Finance Examiner program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of government-sponsored enterprise examinations.</li> </ul>	Improved quality	<i>OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program</i> . <a href="#">COM-2015-001</a> . July 29, 2015.
<b>Quality Control</b>	<ul style="list-style-type: none"> <li>Ensure that the Division of Enterprise Regulation's (DER's) recently adopted procedures for quality control reviews meet the requirements of Supervision Directive 2013-01 and require DER to</li> </ul>	Improved quality	<i>Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of</i>



<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Risk Assessments for Supervisory Planning</b>	document in detail the results and findings of each quality control review in examination workpapers, including any shortcomings found during the quality control review.		<i>Assurance of the Adequacy and Quality of Enterprise Examinations.</i> <a href="#">EVL-2015-007</a> . September 30, 2015.
	<ul style="list-style-type: none"> <li>Implement detailed risk assessment guidance that provides minimum requirements for risk assessments that facilitate comparable analyses for each Enterprise's risk positions, including common criteria for determining whether risk levels are high, medium, or low, year over year.</li> </ul>	Improved understanding of risk	<i>Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels.</i> <a href="#">EVL-2016-001</a> . January 4, 2016.
	<ul style="list-style-type: none"> <li>Implement detailed risk assessment guidance that provides standard requirements for format and the documentation necessary to support conclusions in order to facilitate comparisons between Enterprises and reduce variability among DER's risk assessments for each Enterprise and between the Enterprises.</li> </ul>		
<b>Targeted Examinations Completed</b>	<ul style="list-style-type: none"> <li>Direct DER to train its examiners-in-charge (EICs) and exam managers in the preparation of semi-annual risk assessments, using enhanced risk assessment guidance consistent with Recommendations 1 and 2.</li> </ul>		
	<ul style="list-style-type: none"> <li>Ensure that risk assessments support the supervisory plan in terms of the targeted examinations included in those supervisory plans and the priority assigned to those targeted examinations.</li> </ul>	Improved supervision	<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned</i>

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
			<i>Examinations Were Not Completed.</i> <a href="#">AUD-2016-005</a> . September 30, 2016.
	<ul style="list-style-type: none"> <li>Reinforce and hold the EICs accountable to meet FHFA's requirement for risk assessments to be updated semiannually, and as information is learned that causes significant changes to the risk profile, such information, from whatever sources, should be factored into the risk assessment during the next update.</li> </ul>		
	<ul style="list-style-type: none"> <li>Direct DER to develop and implement controls to ensure that high-priority planned targeted examinations are completed before lower priority targeted examinations, unless the reason(s) for performing a lower priority targeted examination in lieu of a higher priority planned targeted examination is documented and risk based (e.g., change in process, delay in implementation).</li> </ul>		
	<ul style="list-style-type: none"> <li>Enhance DER guidance to provide a common definition for the priority assigned to targeted examinations and require examiners to document the basis of the priority assigned to targeted examinations.</li> </ul>		
	<ul style="list-style-type: none"> <li>Assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans.</li> </ul>	Improved supervision	<i>FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report</i>

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
			<p>of Examination Issued. <a href="#">AUD-2016-006</a>. September 30, 2016. FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed. <a href="#">AUD-2016-007</a>. September 30, 2016.</p>
	<ul style="list-style-type: none"> <li>• Develop and implement guidance that clearly requires supervisory plans to identify and prioritize the planned targeted examinations that are to be completed for each supervisory cycle, in order to fully inform the Report of Examination (ROE) and CAMELSO (a rating system with components including Capital, Asset quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk) ratings for that cycle.</li> </ul>		
	<ul style="list-style-type: none"> <li>• Develop and implement a control that provides for the tracking and documentation of planned targeted examinations, through disposition, in DER's official system of record.</li> </ul>		
	<ul style="list-style-type: none"> <li>• Reinforce and hold EICs accountable to follow DER's requirement to fully document the risk-based justifications for changes to the supervisory plan, and that changes to supervisory plans are documented and approved by the EIC. Ensure that examiners follow DER Operating Procedures Bulleting 2013- DER-OPB-03.1 to fully document the risk-based justifications for changes to the supervisory plan, and that changes</li> </ul>		

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Oversight of Enterprise Remediation of Deficiencies</b>	to supervisory plans are documented and approved by the EIC.		
	<ul style="list-style-type: none"> <li>Because DER and the Division of Federal Home Loan Bank Regulation (DBR) examiners are bound to follow FHFA's requirements and guidance, compare the processes followed by DBR for the form, content, and issuance of a matter requiring attention (MRA), standards for a proposed remediation plan, approval authority for a proposed remediation plan, and real time assessments at regular intervals of the effectiveness and timeliness of MRA remediation efforts to the processes followed by DER</li> </ul>	Improved remediation of deficiencies	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies.</i> <a href="#">EVL-2016-004</a> . March 29, 2016.
	<ul style="list-style-type: none"> <li>Based on the results of the review in recommendation 3, assess whether guidance issued and processes followed by either DER or DBR should be enhanced, and make such enhancements.</li> </ul>		
	<ul style="list-style-type: none"> <li>Provide mandatory training for all FHFA examiners on FHFA requirements, guidance, and processes and DER and DBR guidance for MRA issuance, review and approval of proposed remediation plans, and oversight of MRA remediation.</li> </ul>		
<b>Communication of Deficiencies to Enterprise Boards</b>	<ul style="list-style-type: none"> <li>Evaluate the results of quality control reviews conducted by DER and DBR to identify and address gaps and weaknesses involving MRA issuance, review and approval of proposed remediation plans, and oversight of MRA remediation.</li> </ul>		
	<ul style="list-style-type: none"> <li>Revise supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each plan submitted by Enterprise management to remediate an MRA with associated timetables and the response by DER.</li> </ul>	Improved Board oversight	<i>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's</i>

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
			<i>Remediation Efforts are Inadequate.</i> <a href="#">EVL-2016-005</a> . March 31, 2016.
	<ul style="list-style-type: none"> <li>• Revise FHFA’s <i>Examination Manual</i> to: <ul style="list-style-type: none"> <li>○ Require that each final ROE be addressed and delivered to the board of directors of an Enterprise by DER examiners to eliminate any confusion over the meaning of the term “issue;”</li> <li>○ Establish a timetable for submission of the final ROE to each Enterprise’s board of directors and for DER’s presentation of the ROE results, conclusions, and supervisory concerns to each Enterprise board;</li> <li>○ Require each Enterprise board to reflect its review of each annual ROE in meeting minutes; and</li> <li>○ Require each Enterprise board to reflect its review and approval of its written response to the ROE in its meeting minutes.</li> </ul> </li> </ul>	Improved Board oversight	<i>FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports.</i> <a href="#">EVL-2016-009</a> . July 14, 2016.
	<ul style="list-style-type: none"> <li>• Direct DER to develop detailed guidance and promulgate that guidance to each Enterprise’s board of directors that explains: <ul style="list-style-type: none"> <li>○ The purpose for DER’s annual presentation to each Enterprise board of directors on the ROE results, conclusions, and supervisory concerns and the opportunity for directors to ask questions and discuss ROE examination conclusions and supervisory concerns at that presentation; and</li> <li>○ The requirement that each Enterprise board of directors submit a written response to the annual ROE to DER and the expected level of detail regarding ongoing and contemplated</li> </ul> </li> </ul>		

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Assessing Remediation of Deficiencies</b>	remediation in that written response.		
	<ul style="list-style-type: none"> <li>Require the Enterprises to provide, in their remediation plans, the target date in which their internal audit departments expect to validate management's remediation of MRAs, and require examiners to enter that date into a dedicated field in the MRA tracking system.</li> </ul>	Improved remediation of deficiencies	<i>FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises.</i> <a href="#">EVL-2016-007</a> . July 14, 2016.
	<ul style="list-style-type: none"> <li>Require DER, upon acceptance of an Enterprise's remediation plan, to estimate the date by which it expects to confirm internal audit's validation, and to enter that date into a dedicated field in the MRA tracking system.</li> <li>Require DER to conduct and document, in an Analysis Memorandum or other work paper, an independent assessment of the adequacy of each Enterprise MRA remediation plan and the basis upon which such plan is either accepted or rejected, and to maintain that document in DER's supervisory record-keeping system.</li> <li>Require DER, when evaluating whether to close an MRA, to conduct and document (in an Analysis Memorandum or other work paper) an independent analysis of the adequacy and sustainability of the Enterprise's remediation activity, or where appropriate, the adequacy of the Enterprise's internal audit validation work, and maintain that document in DER's supervisory record-keeping system.</li> </ul>		
<b>Identification of Deficiencies and</b>	<ul style="list-style-type: none"> <li>Direct DER to develop and adopt a standard template for Enterprise ROEs,</li> </ul>	Improved Board oversight	<i>FHFA's Failure to Consistently</i>

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Their Root Causes</b>	<p>issue instructions for completing that template, and promulgate guidance that establishes baseline elements that must be included in each ROE, such as: clear communication of deficient, unsafe, or unsound practices; explanation of how those practices gave rise to supervisory concerns or deficiencies; and prioritization of remediation of supervisory concerns and deficiencies.</p>		<p><i>Identify Specific Deficiencies and Their Root Causes in Its Reports of Examination Constrains the Ability of the Enterprise Boards to Exercise Effective Oversight of Management's Remediation of Supervisory Concerns.</i> <a href="#">EVL-2016-008</a>. July 14, 2016.</p>
<b>Extension of Unsecured Credit by Federal Home Loan Banks</b>	<ul style="list-style-type: none"> <li>• Develop written procedures for the “fatal flaw” review of the ROE by Enterprise management that establish the purpose of the review, its duration, and a standard message for conveying this information to Enterprise management.</li> <li>• To strengthen the regulatory framework around the extension of unsecured credit by the Federal Home Loan Banks, OIG recommends, as a component of future rulemakings, that FHFA consider the utility of: <ul style="list-style-type: none"> <li>○ Establishing maximum overall exposure limits;</li> <li>○ Lowering the existing individual counterparty limits; and</li> <li>○ Ensuring that the unsecured exposure limits are consistent with the Federal Home Loan Bank System’s housing mission.</li> </ul> </li> </ul>	Improved compliance	<p><i>FHFA’s Oversight of the Federal Home Loan Banks’ Unsecured Credit Risk Management Practices.</i> <a href="#">EVL-2012-005</a>. June 28, 2012.</p>

## Counterparties

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Reliability of Appraisal Data</b>	<ul style="list-style-type: none"> <li>Ensure the portal warning messages distinguish between inactive appraisers and unverified appraisers, as of the date the appraisal is performed.</li> </ul>	Improved compliance	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages.</i> <a href="#">AUD-2014-008</a> . February 6, 2014.
	<ul style="list-style-type: none"> <li>Ensure that the portal tests whether appraisers are licensed and active at the time the appraisal is performed.</li> </ul>		
	<ul style="list-style-type: none"> <li>Change the message type, for messages relating to appraiser license status, from automatic override to manual override or fatal, which will require lenders to take action to address the message prior to delivering the loan. This action can be taken once the system logic is fixed and the historical records are available to determine the status of an appraiser's license at the time the appraisal work is performed, and the states are updating in real-time.</li> </ul>		
<b>Collection of Funds from Servicers</b>	<ul style="list-style-type: none"> <li>FHFA should ensure that Fannie Mae is required to: <ul style="list-style-type: none"> <li>Quantify and aggregate its overpayments to servicers regularly.</li> <li>Implement a plan to reduce these overpayments by (i) identifying their root causes, (ii) creating reduction targets, and (iii) holding managers accountable.</li> <li>Report its findings and progress to FHFA periodically.</li> </ul> </li> </ul>	Improved financial management	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses.</i> <a href="#">EVL-2013-012</a> . September 18, 2013.
<b>Compliance with Advisory Bulletins</b>	<ul style="list-style-type: none"> <li>In 2017, or as expeditiously as possible, complete the examination activities necessary to determine whether [redacted] risk management of nonbank seller/servicers meets</li> </ul>	Improved risk management	<i>FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins</i>



<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
	FHFA's supervisory expectations as set forth in its supervisory guidance. These activities should include an independent assessment of the [redacted].		<i>Regarding Risk Management of Nonbank Sellers and Servicers.</i> <a href="#">EVL-2017-002</a> . December 21, 2016.

## Information Technology

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>OIG Information Technology Security</b>	<ul style="list-style-type: none"> <li>Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.</li> </ul>	Improved information security	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program—2014.</i> <a href="#">AUD-2014-021</a> . September 30, 2014.
	<ul style="list-style-type: none"> <li>Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.</li> </ul>	Improved information security	<i>Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program Fiscal Year 2016.</i> <a href="#">AUD-2017-002</a> . October 26, 2016.
<b>FHFA Information Technology Security</b>	<ul style="list-style-type: none"> <li>Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.</li> </ul>	Improved information security	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014.</i> <a href="#">AUD-2014-019</a> . September 26, 2014.
<b>Information Technology Risk Examinations</b>	<ul style="list-style-type: none"> <li>Take formal and timely action to compare existing regulatory guidance to appropriate elements of the National Institute of Standards and Technology (NIST) framework and identify gaps</li> </ul>	Improved risk management	<i>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST</i>

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Cyber Risk Oversight</b>	between existing regulatory guidance and appropriate elements of the NIST framework.		Framework. <a href="#">EVL-2016-003</a> . March 28, 2016.
	<ul style="list-style-type: none"> <li>Determine the priority in which to address the gaps.</li> </ul>		
	<ul style="list-style-type: none"> <li>Address the gaps, as prioritized, to reflect and incorporate appropriate elements of the NIST framework.</li> </ul>		
	<ul style="list-style-type: none"> <li>Revise existing regulatory guidance to reflect and incorporate appropriate elements of the NIST framework in a manner that achieves consistency with other federal financial regulators.</li> </ul>		
	<ul style="list-style-type: none"> <li>Direct the Fannie Mae Board to enhance Fannie Mae’s existing cyber risk management policies to:               <ul style="list-style-type: none"> <li>Require a baseline Enterprise-wide cyber risk assessment with subsequent periodic updates;</li> <li>Describe information to be reported to the Board and committees;</li> <li>Include a cyber risk framework and cyber risk appetite.</li> </ul> </li> </ul>	Improved risk management	<i>Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA’s Closer Attention to Governance Issues.</i> <a href="#">EVL-2016-006</a> . March 31, 2016.
	<ul style="list-style-type: none"> <li>Instruct the Fannie Mae Board to establish and communicate a desired target state of cyber risk management for Fannie Mae that identifies and prioritizes which risks to avoid, accept, mitigate, or transfer through insurance.</li> </ul>		
	<ul style="list-style-type: none"> <li>Direct the Fannie Mae Board to oversee management’s efforts to leverage industry standards to:               <ul style="list-style-type: none"> <li>Protect against and detect existing threats;</li> <li>Remain informed on emerging risks;</li> <li>Enable timely response and recovery in the event of a breach; and</li> <li>Achieve the desired target state of cyber risk management identified in Recommendation 2 within a time period agreed upon by the Board.</li> </ul> </li> </ul>		

## FHFA Internal Operations

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Oversight of FHFA Workforce Matters</b>	<ul style="list-style-type: none"> <li>Regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.</li> </ul>	Improved opportunities and oversight	<i>Women and Minorities in FHFA's Workforce.</i> <a href="#">EVL-2015-003</a> . January 13, 2015.
<b>Compliance with Law and Regulation</b>	<ul style="list-style-type: none"> <li>Cease using FHFA vehicles and employees to provide transportation to Agency employees in a manner that is inconsistent with federal law and regulations.</li> <li>Cease using FHFA employees to research or book personal travel for [redacted] or his family in contravention of 5 C.F.R. § 2635.705(b).</li> <li>Revise FHFA's Vehicle Use Policy to track the requirements of Section 1344 and implementing regulations.</li> <li>Maintain detailed usage logs for all leased vehicles.</li> <li>Train employees tasked with providing FHFA transportation to [redacted] and other FHFA employees with the statutory and regulatory requirements.</li> <li>Adopt appropriate internal controls to ensure that the findings required by Section 1344 are made by the appropriate Agency employee, are documented in writing, and that requisite notices are provided.</li> <li>Retain all documentation relating to provision of transportation under Section 1344.</li> </ul>	Improved compliance with law and regulation	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation.</i> <a href="#">OIG-2017-001</a> . December 6, 2016.

## CLOSED UNIMPLEMENTED RECOMMENDATIONS .....

The Inspector General Act of 1978 does not authorize any federal inspector general to compel its respective agency to adopt new policies or processes or take personnel actions to correct shortcomings found in their audits, evaluations, and investigations. Rather, the Act empowers inspectors general to recommend remedial actions to correct such shortcomings, and the affected agency determines whether or not to accept the recommendations.

From time to time, FHFA will reject a recommendation made by OIG or, having agreed to the recommendation, may fail to follow through on corrective action. In such circumstances we engage with the Agency and attempt to reach resolution on acceptable corrective action. When this process has been exhausted and the Agency indicates its intention to permanently reject a recommendation, the recommendation is closed.

We believe it is important to be transparent and distinguish between recommendations that have been closed in light of appropriate movement toward implementation and recommendations that have been closed in light of FHFA's refusal to take any action. For those recommendations closed due to rejection by FHFA, we continue to stand by our findings and believe that the Agency should have undertaken the recommended actions.

The recommendations listed below represent those that have been closed following FHFA's rejection and were not implemented.

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Property Inspection Quality Controls</b>	<ul style="list-style-type: none"> <li>Establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.</li> </ul>	Improved quality	<i>FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections.</i> <a href="#">AUD-2014-012</a> . March 25, 2014.
<b>Seller/Service Resolution of Aged Repurchase Demands</b>	<ul style="list-style-type: none"> <li>Promptly quantify the potential benefit of implementing a repurchase late fee program at Fannie Mae, and then determine whether the potential cost of from \$500,000 to \$5.4 million still outweighs the potential benefit.</li> </ul>	Improved oversight	<i>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands.</i> <a href="#">AUD-2014-009</a> . February 12, 2014.

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Oversight of Enterprise Implementation of Representation and Warranty Framework</b>	<ul style="list-style-type: none"> <li>Perform a comprehensive analysis to assess whether financial risks associated with the new representation and warranty framework, including with regard to sunset periods, are appropriately balanced between the Enterprises and sellers. This analysis should be based on consistent transactional data across both Enterprises, identify potential costs and benefits to the Enterprises, and document consideration of the Agency's objectives.</li> </ul>	Improved framework management	<i>FHFA's Representation and Warranty Framework.</i> <a href="#">AUD-2014-016</a> . September 17, 2014.
<b>Seller/Servicer Compliance with Guidance</b>	<ul style="list-style-type: none"> <li>OIG recommends that FHFA direct Fannie Mae and Freddie Mac to assess the cost/benefit of a risk-based approach to requiring their sellers and servicers to provide independent, third-party attestation reports on compliance with Enterprise origination and servicing guidance.</li> </ul>	Improved compliance	<i>FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines.</i> <a href="#">AUD-2014-018</a> . September 26, 2014.
<b>Collection of Funds from Servicers</b>	<ul style="list-style-type: none"> <li>Publish Fannie Mae's reduction targets and overpayment findings.</li> </ul>	Improved transparency	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses.</i> <a href="#">EVL-2013-012</a> . September 18, 2013.
<b>Examination Recordkeeping Practices</b>	<ul style="list-style-type: none"> <li>Adopt a comprehensive examination workpaper index and standardize electronic workpaper folder structures and naming conventions between the two Core Teams. In addition, FHFA and DER should upgrade recordkeeping practices as necessary to enhance the identification and retrieval of critical workpapers.</li> </ul>	Improved efficiency	<i>Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities.</i> <a href="#">EVL-2015-001</a> . October 6, 2014.

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Oversight of Enterprise Executive Compensation</b>	<ul style="list-style-type: none"> <li>Develop a strategy to enhance the Executive Compensation Branch's capacity to review the reasonableness and justification of the Enterprises' annual proposals to compensate their executives based on Corporate Scorecard performance. To this end, FHFA should ensure that: the Enterprises submit proposals containing information sufficient to facilitate a comprehensive review by the Executive Compensation Branch; the Executive Compensation Branch tests and verifies the information in the Enterprises' proposals, perhaps on a randomized basis; and the Executive Compensation Branch follows up with the Enterprises to resolve any proposals that do not appear to be reasonable and justified.</li> </ul>	Improved oversight	<i>Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance.</i> <a href="#">COM-2016-002</a> . March 17, 2016.
	<ul style="list-style-type: none"> <li>Develop a policy under which FHFA is required to notify OIG within 10 days of its decision not to fully implement, substantially alter, or abandon a corrective action that served as the basis for OIG's decision to close a recommendation.</li> </ul>		
<b>Oversight of Servicing Alignment Initiative</b>	<ul style="list-style-type: none"> <li>Establish an ongoing process to evaluate servicers' Servicing Alignment Initiative compliance and the effectiveness of the Enterprises' remediation efforts.</li> </ul>	Improved servicing compliance and minimized losses	<i>FHFA's Oversight of the Servicing Alignment Initiative.</i> <a href="#">EVL-2014-003</a> . February 12, 2014.
	<ul style="list-style-type: none"> <li>Direct the Enterprises to provide routinely their internal reports and reviews for the Division of Housing Mission and Goals' assessment.</li> <li>Regularly review Servicing Alignment Initiative-related guidelines for enhancements or revisions, as necessary, based on servicers' actual versus expected performance.</li> </ul>		

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Targeted Examinations Completed</b>	<ul style="list-style-type: none"> <li>Revise existing guidance to require examiners to prepare complete documentation of supervisory activities and maintain such documentation in the official system of record, and train DER examiners on this guidance.</li> </ul>	Improved supervision	<p><i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed. <a href="#">AUD-2016-005</a>. September 30, 2016. FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued. <a href="#">AUD-2016-006</a>. September 30, 2016. FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed. <a href="#">AUD-2016-007</a>. September 30, 2016.</i></p>

<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Oversight of Enterprise Remediation of Deficiencies</b>	<ul style="list-style-type: none"> <li>Review FHFA's existing requirements, guidance, and processes regarding MRAs against the requirements, guidance, and processes adopted by the Office of the Comptroller of the Currency, Federal Reserve, and other federal financial regulators, including, but not limited to: content of an MRA, standards for proposed remediation plans, approval authority for proposed remediation plans, real time assessments at regular intervals of the effectiveness and timeliness of an Enterprise's MRA remediation efforts, final assessment of the effectiveness and timeliness of an Enterprise's MRA remediation efforts, and required documentation for examiner oversight of MRA remediation.</li> <li>Based on the results of the review in recommendation 1, assess whether any of the existing requirements, guidance, and processes adopted by FHFA should be enhanced, and make such enhancements.</li> </ul>	Improved remediation of deficiencies	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies.</i> <a href="#">EVL-2016-004</a> . March 29, 2016.
<b>Communication of Deficiencies to Enterprise Boards</b>	<ul style="list-style-type: none"> <li>Direct the Enterprises' boards to amend their charters to require review by each director of each annual ROE and review and approval of the written response to DER in response to each annual ROE.</li> </ul>	Improved Board oversight	<i>FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports.</i> <a href="#">EVL-2016-009</a> . July 14, 2016.
<b>Assessing Remediation of Deficiencies</b>	<ul style="list-style-type: none"> <li>Ensure that the underlying remediation documents, including the Procedures Document, are readily available by direct link or other means, through DER's MRA tracking system(s).</li> </ul>	Improved remediation of deficiencies	<i>FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in</i>



<i>Specific Risk to be Mitigated</i>	<i>Recommendation</i>	<i>Expected Impact</i>	<i>Report</i>
<b>Identification of Deficiencies and Their Root Causes</b>			<i>its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises.</i> <a href="#">EVL-2016-007</a> . July 14, 2016.
	<ul style="list-style-type: none"> <li>Require DER to track interim milestones and to independently assess and document the timeliness and adequacy of Enterprise remediation of MRAs on a regular basis.</li> <li>Direct DER to revise its guidance to require ROEs to focus the boards' attention of the most critical and time-sensitive supervisory concerns through (1) the prioritization of examination findings and conclusions and (2) identification of deficiencies and MRAs in the ROE and discussion of their root causes.</li> </ul>	Improved Board oversight	<i>FHFA's Failure to Consistently Identify Specific Deficiencies and Their Root Causes in Its Reports of Examination Constrains the Ability of the Enterprise Boards to Exercise Effective Oversight of Management's Remediation of Supervisory Concerns.</i> <a href="#">EVL-2016-008</a> . July 14, 2016.

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